碧 生 源 控 股 有 限 公 司
BESUNYEN HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 926)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS *(Note)*

The Group's revenue amounted to approximately RMB378.4 million for 2018, representing a decrease of approximately 22.4% as compared to that of approximately RMB487.8 million for 2017.

The gross profit margin decreased to 67.5% for 2018 from that of 76.9% for 2017.

The Group recorded a total comprehensive loss of approximately RMB93.5 million for 2018, compared to the total comprehensive income of approximately RMB5.3 million for 2017.

The basic and diluted losses per share was approximately RMB5.98 cents in 2018, as compared to the basic and diluted earnings per share of approximately RMB0.27 cents in 2017.

FINAL DIVIDEND

The Board has resolved not to recommend for the declaration and payment of a final dividend for the year ended 31 December 2018.

Note:

The Group has adopted the International Financial Reporting Standard 15 "Revenue from Contracts with Customers" (the "**IFRS 15**") in the current year and the related impact of which has been detailed on page 28 of this results announcement. The Group has adopted the IFRS 15 by using the modified retrospective approach and hence the comparative financial information for the year ended 31 December 2017 has not been restated in the Group's audited consolidated financial statements for the year ended 31 December 2018. For the purpose of this results announcement only, the comparative information of revenue, gross profit and selling and marketing expenses as quoted above or in the "Financial Review" section have been restated as if the Group has adopted the IFRS 15 by using the full retrospective approach so as to illustrate a more comparable result.

The board (the "**Board**") of directors (the "**Directors**") of Besunyen Holdings Company Limited (the "**Company**") hereby announces the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue	3	**378,378**	542,870
Cost of sales		**(123,061)**	(112,677)
Gross profit		**255,317**	430,193
Other income		**22,675**	28,645
Selling and marketing expenses		**(246,849)**	(339,684)
Administrative expenses		**(112,417)**	(106,921)
Impairment loss of intangible assets		**(4,802)**	—
Research and development costs		**(23,548)**	(15,866)
Other expenses		**(9,829)**	(9,665)
Other gains/(losses), net		**6,054**	(3,305)
Finance costs		**(6,665)**	(180)
Share of (losses)/profits of investments accounted for using the equity method		**(1,295)**	9,599
Loss before income tax		**(121,359)**	(7,184)
Income tax credit	4	**27,887**	12,465
(Loss)/profit for the year		**(93,472)**	5,281
(Loss)/profit attributable to:			
— Owners of the Company		**(95,299)**	4,086
— Non-controlling interests		**1,827**	1,195
		(93,472)	5,281

	Note	Year ended 31 December **2018** ***RMB'000***	2017 *RMB'000*
Other comprehensive income		**—**	—
Total comprehensive (loss)/income for the year		**(93,472)**	5,281
Total comprehensive (loss)/income attributable to:			
— Owners of the Company		**(95,299)**	4,086
— Non-controlling interests		**1,827**	1,195
		(93,472)	5,281
(Losses)/earnings per share attributable to owners of the Company for the year (RMB cents)			
— Basic (losses)/earnings per share	5	**(5.98)**	0.27
— Diluted (losses)/earnings per share	5	**(5.98)**	0.27

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**210,266**	364,996
Land use rights		**117,176**	345,624
Investment properties		**144,996**	48,881
Intangible assets		**182,029**	200,158
Non-current deposits		**12,573**	8,726
Investments accounted for using the equity method		**94,019**	96,112
Deferred income tax assets		**64,353**	49,645
Total non-current assets		**825,412**	1,114,142
Current assets			
Inventories		**30,472**	17,686
Trade receivables	6	**37,054**	52,976
Bills receivables	6	**13,747**	—
Deposits, prepayments and other receivables		**40,522**	26,994
Restricted bank deposits		**—**	299
Short-term investments		**38,300**	—
Term deposits with initial term of over three months		**—**	4,185
Cash and cash equivalents		**56,575**	78,790
		216,670	180,930
Assets classified as held for sale	10	**394,686**	94,325
Total current assets		**611,356**	275,255
Total assets		**1,436,768**	1,389,397

	Note	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	8	**94**	94
Share premium		**1,120,685**	1,120,685
Other reserves		**321,384**	322,414
Accumulated losses		**(478,131)**	(383,956)
		964,032	1,059,237
Non-controlling interests		**84,873**	83,046
Total equity		**1,048,905**	1,142,283
LIABILITIES			
Non-current liabilities			
Deferred government grants		**35,167**	20,953
Deferred income tax liabilities		**36,867**	39,570
Other non-current liabilities		**14,647**	1,296
Total non-current liabilities		**86,681**	61,819
Current liabilities			
Trade and bills payables	7	**8,752**	13,336
Other payables and accrued expenses		**92,057**	143,920
Contract liabilities		**34,896**	—
Borrowings		**150,000**	20,000
Current income tax liabilities		**547**	673
		286,252	177,929
Liabilities directly associated with assets classified as held for sale	10	**14,930**	7,366
Total current liabilities		**301,182**	185,295
Total liabilities		**387,863**	247,114
Total equity and liabilities		**1,436,768**	1,389,397

NOTES TO THE ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

Besunyen Holdings Company Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company's registered office is The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands. The principle activities of the Company and its subsidiaries (collectively referred to as the "**Group**") are manufacturing and sales of therapeutic tea products (including detox tea, slimming tea and other tea products) and slimming and other medicines.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

2. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") and the requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets which were measured at fair value either through other comprehensive income ("**FVOCI**") or through profit or loss ("**FVPL**").

2.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
- Annual Improvements 2014–2016 cycle
- Transfer to Investment Property — Amendments to IAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

Except for the impact on the adoption of the IFRS 9 and IFRS 15 as described below, most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

IFRS 9 "Financial Instruments"

From 1 January 2018 onwards, the Group classifies its financial assets, depending on the Group's business model for managing the financial assets and the contractual terms of the related cash flows, under the following measurement categories:

- those to be measured at amortised cost, and

- those to be measured at fair value (either through other comprehensive income or through profit or loss).

Bills receivables where the contractual cash flow were solely principal and interest were reclassified from financial assets at amortised cost to FVOCI as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. As of 1 January 2018, bills receivables with a carrying amount of approximately RMB31,546,000 were reclassified from financial assets at amortised cost to FVOCI. The Group has adopted the IFRS 9 in accordance with the transitional provisions and the related comparative financial information has not been restated accordingly.

Bills receivables are all bank acceptance notes with maturity dates within six months. The fair value of bills receivables approximate to its carrying amount due to the short maturities.

In addition, the Group has adopted the simplified expected credit loss model for its trade receivables and bills receivables upon the adoption of IFRS 9. Applying the new expected credit loss model did not result in any significant changes to the loss allowances for trade and bills receivable as at 31 December 2018 and 1 January 2018.

Other financial assets at amortised cost include cash and cash equivalents, term deposits and other receivables, etc. They are considered to be of low credit risk and thus the impairment provision recognised is limited to 12 months expected losses. Management considers that the expected credit loss is insignificant.

Other than the reclassification of bills receivables as FVOCI as described above, there is no other significant impact on the Group's consolidated financial statements upon the adoption of IFRS 9.

IFRS 15 "Revenue from Contracts with Customers"

The Group has adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to amounts recognised in the financial statements. The Group's adoption of IFRS 15 did not result in any significant changes in the timing of revenue as recognised by the Group.

Prior to the adoption of IFRS 15, certain promotion expenses were recognised separately as selling and marketing expenses. Due to the more specific guidance on the determination of sales transaction price has been set out in IFRS 15, this type of promotion expenses have been net off against the Group's revenue with effect from 1 January 2018. The Group has adopted the IFRS 15 by using the modified retrospective approach and hence the related comparative financial information has not been restated accordingly. The aforesaid promotion expenses for the years ended 31 December 2018 and 2017 amounted to approximately RMB23,606,000 and RMB55,048,000 respectively.

In addition, the Group has reclassified the non-refundable advance from customers, which was previously recorded in other payable and accrued expenses prior to the adoption of IFRS 15, as contract liabilities with effect from 1 January 2018.

(b) New and amended standards early adopted by the Group

The Group has early adopted IFRS 3 (Amendments) — "Definition of a business" for the first time for their annual reporting period commencing 1 January 2018.

The IFRS 3 (Amendments) clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendment is effective on or after 1 January 2020 and earlier application is permitted. The Group has early adopted and choose to apply to the assets/business transfers within the Group retrospectively as applying the amendment will more represent the commercial substance of the intra-group transfers. The early adoption of IFRS 3 (Amendments) has no impact on the Group's consolidated financial statements.

(c) New standards and interpretations not yet adopted

The following accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting period and have not been early adopted by the Group:

	Effective for accounting periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021
Prepayment Features with Negative Compensation — Amendments to IFRS 9	1 January 2019
Long-term Interests in Associates and Joint Ventures — Amendments to IAS 28	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	1 January 2019
Plan Amendment, Curtailment or Settlement — Amendments to IAS 19	1 January 2019
Sale or contribution of assets between an investor and its associate or joint venture — Amendments to IFRS 10 and IAS 28	Not determined

Out of these accounting standards and interpretations, the Group's assessment of the impact of these new standards and interpretations that are applicable to the Group is set out below:

IFRS 16 "Leases"

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The Group has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB2,640,000. Of these commitments, approximately RMB1,140,000 relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss. For the remaining lease commitments of RMB1,500,000, the Group expects to recognise right-of-use assets and lease liabilities (adjusted for any prepaid or accrued lease expense) on 1 January 2019 respectively.

3. REVENUE AND SEGMENT INFORMATION

The chief operating decision maker ("**CODM**") has been identified as the Executive Directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources.

The CODM had identified the manufacturing and sales of tea products and also the sales of slimming and other medicine as separate reportable segments, namely the tea products segment and the slimming and other medicine segment.

The CODM evaluates the performance of the reportable segments based on their revenue, gross profit and operating results which derived from gross profit to include selling and marketing expenses and research and development costs. The CODM does not assess the assets and liabilities of the operating segments.

Revenue

The revenue segment information reported to CODM for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
	RMB'000	*RMB'000*
Tea products segment		
— Detox tea	**114,000**	225,764
— Slimming tea	**149,589**	215,975
— Others	**34,834**	32,262
	298,423	474,001
Sliming and other medicine segment		
— Slimming medicine	**66,985**	62,694
— Other medicine	**12,970**	6,175
	79,955	68,869
	378,378	542,870

The segment results for the year ended 31 December 2018 are as follows:

	Tea products segment *RMB'000*	Slimming and other medicine segment *RMB'000*	Total *RMB'000*
Total revenue	**298,423**	**79,955**	**378,378**
Inter-segment revenue	**—**	**—**	**—**
Revenue from external customers	**298,423**	**79,955**	**378,378**
Timing of revenue recognition			
At a point in time	**298,423**	**79,955**	**378,378**
Cost of sales	**(75,308)**	**(47,753)**	**(123,061)**
Gross profit	**223,115**	**32,202**	**255,317**
Selling and marketing expenses	**(197,975)**	**(48,874)**	**(246,849)**
Research and development costs	**(9,630)**	**(13,918)**	**(23,548)**
Segment results	**15,510**	**(30,590)**	**(15,080)**
Other income			**22,675**
Administrative expenses			**(112,417)**
Impairment loss of intangible assets			**(4,802)**
Other expenses			**(9,829)**
Other gains, net			**6,054**
Finance costs			**(6,665)**
Share of losses of investments accounted for using the equity method			**(1,295)**
Loss before income tax			**(121,359)**
Income tax credit			**27,887**
Loss for the year			**(93,472)**
Other segment information:			
Impairment loss of intangible assets	**—**	**(4,802)**	**(4,802)**
Depreciation	**(30,771)**	**(6,249)**	**(37,020)**
Amortisation	**(11,735)**	**(10,915)**	**(22,650)**

The segment results for the year ended 31 December 2017 are as follows:

	Tea products segment *RMB'000*	Slimming and other medicine segment *RMB'000*	Total *RMB'000*
Total revenue	474,001	68,869	542,870
Inter-segment revenue	—	—	—
Revenue from external customers	474,001	68,869	542,870
Timing of revenue recognition			
At a point in time	474,001	68,869	542,870
Cost of sales	(88,340)	(24,337)	(112,677)
Gross profit	385,661	44,532	430,193
Selling and marketing expenses	(288,603)	(51,081)	(339,684)
Research and development costs	(10,297)	(5,569)	(15,866)
Segment results	86,761	(12,118)	74,643
Other income			28,645
Administrative expenses			(106,921)
Other expenses			(9,665)
Other losses, net			(3,305)
Finance costs			(180)
Share of profits of investments accounted for using the equity method			9,599
Loss before income tax			(7,184)
Income tax credit			12,465
Profit for the year			5,281
Other segment information:			
Depreciation	(31,911)	(1,256)	(33,167)
Amortisation	(10,772)	(2,789)	(13,561)

Non-current assets are all located in the PRC.

All the revenue derived from any single external customer were less than 10% of the Group's total revenue for the years ended 31 December 2018 and 2017.

4. INCOME TAX CREDIT

	2018	2017
	RMB'000	*RMB'000*
Current income tax:		
PRC enterprise income tax	**284**	593
Deferred income tax:		
Origination and reversal of temporary differences	**(28,171)**	(13,058)
Income tax credit	**(27,887)**	(12,465)

The Company was incorporated in the Cayman Islands and Besunyen Investment (BVI) Co., Ltd. was incorporated in the British Virgin Islands ("**BVI**") and they are tax exempted under the tax laws of the Cayman Islands and the BVI respectively.

The tax rate applicable to the Group's subsidiaries incorporated and operated in Hong Kong is 16.5% (2017: 16.5%). No provision for Hong Kong profit tax has been made as the Group has no estimated assessable profit derived from or generated in Hong Kong for the years ended 31 December 2018 and 2017.

In August 2017, Beijing Outsell Health Product Development Co., Ltd. ("**Beijing Outsell**"), a subsidiary of the Group, obtained the High and New Technology Enterprise ("**HNTE**") qualification for three years from 2017 to 2019, in which the applicable income tax rate during the approved period is 15%.

In December 2016, Zhongshan Wanhan Pharmacy Co., Ltd. ("**Zhongshan Wanhan**"), a subsidiary acquired by the Group in October 2017, obtained the HNTE qualification for three years from 2016 to 2018, in which the applicable income tax rate during the approved period is 15%.

In November 2017, Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. ("**Zhongshan Wanyuan**"), a subsidiary acquired by the Group in October 2017, obtained the HNTE qualification for three years from 2017 to 2019, in which the applicable income tax rate during the approved period is 15%.

Khorgos Besunyen Venture Investment Co., Ltd., a subsidiary established by the Group in July 2017, is entitled to the preferential policy of newly established enterprise in Kashgar and Khorgos Special Economic Development Zone in Xinjiang to exempt from enterprise income tax from 2017 to 2020.

All other PRC subsidiaries of the Group are subject to the statutory enterprise income tax rate of 25% (2017: 25%).

5. (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/earnings per share is calculated by dividing the (losses)/earnings attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares under the Company's Restricted Share Award Scheme.

	2018	2017
(Loss)/profit attributable to owners of the Company *(RMB'000)*	**(95,299)**	4,086
Weighted average number of ordinary shares in issue *(thousand)*	**1,594,799**	1,510,216
Basic (losses)/earnings per share *(RMB cents per share)*	**(5.98)**	0.27

(b) Diluted

The share options granted and restricted shares awarded by the Company have potential dilutive effect on the (losses)/earnings per share. Diluted (losses)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted and restricted shares awarded by the Company (collectively forming the denominator for computing the diluted losses per share). The share options had anti-diluted effect to the Group for the years ended 31 December 2018 and 2017. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 31 December 2018 and 2017. Accordingly, the diluted (losses)/earnings per share is same as the basic (losses)/earnings per share for the years ended 31 December 2018 and 2017.

6. TRADE RECEIVABLES AND BILLS RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**37,844**	22,767
Bills receivables (a)	**—**	31,546
	37,844	54,313
Less: allowance for doubtful debts	**(790)**	(1,337)
	37,054	52,976

(a) Bills receivables are reclassified from financial assets at amortised cost to FVOCI upon the adoption of IFRS 9 with effective from 1 January 2018.

(b) The Group allows a credit period of 20–90 days to its customers. The following is an ageing analysis of trade and bills receivables (net of allowance for doubtful debts) based on the dates of deliveries of the related goods to the customers, which are approximate to their invoice date:

	2018	2017
	RMB'000	*RMB'000*
0–90 days	**35,321**	39,285
91–180 days	**994**	13,495
181–365 days	**637**	83
Over 365 days	**102**	113
	37,054	52,976

7. TRADE AND BILLS PAYABLES

The ageing analysis of the trade and bills payables based on their respective invoice and issue dates are as follows:

	2018	2017
	RMB'000	*RMB'000*
0–90 days	**7,256**	13,188
91–180 days	**1,036**	148
Over 180 days	**460**	—
	8,752	13,336

8. SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of ordinary shares *(thousands)*	Nominal value of ordinary shares *US$*	Equivalent nominal value of ordinary share *RMB'000*
Authorised:			
Ordinary shares of US$0.00000833333 each			
At 1 January 2017, 31 December 2017 and 31 December 2018	**6,000,000**	**50,000**	**341**
Issued and fully paid:			
At 1 January 2017	**1,481,475**	**12,346**	**86**
Repurchase and cancellation of shares	(16,267)	(136)	(1)
Issue of shares	165,000	1,375	9
At 31 December 2017 and 31 December 2018	**1,630,208**	**13,585**	**94**

9. DIVIDENDS

The Board has resolved not to recommend for declaration and payment of a final dividend for the years end 31 December 2018 and 2017.

10. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

(a) On 10 March 2017, Beijing Outsell entered into an equity transfer agreement (the "**Initial Agreement**") with Zhonghang Tuohong (Xi'an) Property Co., Ltd. ("**Zhonghang Tuohong**") and Beijing Outsell's wholly-owned subsidiary, Beijing Besunyen Food and Beverage Co., Ltd. ("**Beijing Besunyen Food and Beverage**"), pursuant to which (i) Beijing Outsell agreed to dispose of its entire 100% equity interest in Besunyen Food and Beverage to Zhonghang Tuohong at an aggregate consideration of RMB75,000,000 (the "**Consideration**") (the "**Disposal**"); and (ii) Besunyen Food and Beverage agreed to repay the debt of RMB50,000,000 to Beijing Outsell within 45 days upon the completion of the registration of the related equity transfer. On 27 December 2017, the Group received a deposit at RMB5,000,000 from Zhonghang Tuohong.

On 31 December 2018, Beijing Outsell entered into an updated supplemental agreement (the "**Updated Supplemental Agreement**") with Zhonghang Tuohong, pursuant to which: (i) all the rights and obligations of Beijing Outsell under the Initial Agreement shall be assumed by Tibet Besunyen Trading Company Limited, a wholly-owned subsidiary of the Group; (ii) a performance deposit of RMB1,000,000 shall be paid by Zhonghang Tuohong to Tibet Besunyen Trading by 31 December 2018, which may in whole or in part be deducted from the Consideration; and (iii) the payment date for the rest of the Consideration shall be extended to 31 August 2019 after the payment of such performance deposit by Zhonghang Tuohong. On 31 December 2018, the Group received the performance deposit of RMB1,000,000 from Zhonghang Tuohong.

The assets and liabilities attributable to Besunyen Food and Beverage amounting to RMB95,982,000 and RMB7,335,000 respectively, which were expected to be sold within twelve months from 31 December 2018, were classified as a disposal group held for sale and were presented separately in the consolidated balance sheet as at 31 December 2018.

(b) Pursuant to the equity transfer agreement as entered into by A Li Yun Shan (Beijing) Business Consulting Co., Ltd., an indirect wholly-owned subsidiary of the Company (the "**Vendor**"), and a third party, Tosalco Pte. Ltd. (the "**Purchaser**") dated on 31 December 2018 (the "**Agreement**"), the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase 100% equity interests in Beijing Chang Sheng Business Consulting Co., Ltd. ("**Beijing Changsheng**", which is an indirect wholly-owned subsidiary of the Vendor as established on 18 July 2018) at a cash consideration of approximately RMB555,000,000 (the "**Proposed Disposal**"). Beijing Changsheng is a vehicle company set up for the purpose of holding the equity investment in Besunyen Property Management Co., Ltd. ("**Besunyen Property**"), an indirect wholly-owned subsidiary of the Company which was established on 2 June 2017 and is the registered owner of a commercial building located in Beijing (the "**Besunyen Building**"). The Proposed Disposal was subsequently completed on 8 March 2019.

The assets and liabilities attributable to Besunyen Property amounting to RMB298,704,000 and RMB7,595,000 respectively, were classified as a disposal group held for sale and were presented separately in the consolidated balance sheet as at 31 December 2018.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended 31 December 2018 in this preliminary announcement as set out above have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

BUSINESS REVIEW AND PROSPECTS

OVERVIEW

In 2018, China's real economy faced significant challenges. From the perspective of industry development, consumption structure upgrade and policy bonus will be the major drivers for the rapid growth of the health food industry of China. In 2018, on top of continuing the remediation of the health food industry in 2017, the Food Safety Office of the State Council has eliminated various non-compliant health food companies in the industry to a certain extent, and has effectively curbed unhealthy competition in the industry. Such efforts have provided compliant enterprises with better and more opportunities.

For the past 18 years, the Group has put consumers first and ensured the quality of each bag of tea according to industrial requirements to bring about health value for consumers. In 2018, the Group kept on enhancing its health food research and development force as well as the development and introduction of new products via investment in branding, research and development and food safety. With continuous launch of new products, the Group has gradually optimised its big health industry chain. Leveraging the competitive edges on research and development in the pharmaceutical manufacturing sector of Zhongshan Wanhan and Zhongshan Wanyuan (collectively referred to as "**Zhongshan Wanhan and Wanyuan**"), the Group constantly developed and reserved new products in the pharmaceutical industry and gradually optimised its pharmaceutical product chain. The Group proactively adjusted its business operation model and marketing strategies, laying a solid foundation for future development with precise functions and market positioning.

In 2018, to eliminate the violation of the Group's management policies by distributors/sub-distributors and the sales of stockpiles at low price in the market, the Group has reduced the discount offered for bulk purchases by distributors/sub-distributors, while shifting the reward criteria for sales personnel from the "sales of distributors/sub-distributors" to the "sales of pharmacies". From a long-term perspective, such measures are beneficial to the reduction of market interruption acts, enhancement of channels management and promotion of direct sales to end users, and thus bringing along higher returns for shareholders. Nevertheless, the Group's product sales would be affected in short term, which is reflected in the Group's performance in 2018. Since September 2018, the Group has further adjusted the allocation mechanism for its sales teams, shifting the performance appraisal model for core personnel from "performance commission" to "operating results sharing". It is believed that such change would boost the operating results of the Group in the coming year.

Revenue of the Group in 2018 was RMB378.4 million, representing a decrease of 22.4% from RMB487.8 million in 2017. Gross profit decreased by 31.9% to RMB255.3 million in 2018 from RMB375.1 million in 2017. Meanwhile, gross profit margin dropped from 76.9% in 2017 to 67.5% in 2018. On the other hand, total operating expenses of the Group (including selling and marketing expenses, administrative expenses and research and development costs) in 2018 were RMB382.8 million, representing a decrease of 6.0% from RMB407.4 million in 2017. The Group recorded a total comprehensive loss of RMB93.5 million for 2018, compared to a total comprehensive income of RMB5.3 million for 2017.

INDUSTRY, MARKET AND COMPETITION

Besunyen Detox Tea and Besunyen Slimming Tea enjoy absolute leading brand advantages when competing with the same types of products in the market. According to a survey report on national retail pharmacies issued by China Southern Medicine Economy Research Institute in March 2019, based on the retail sales of healthcare products, medicines and other types of products sold by retail pharmacies, Besunyen Slimming Tea continued to rank top in the market segment of slimming products for nine consecutive years, enjoying a market share of 33.19% in 2018, representing a year-on-year increase of 1.33 percentage points. Besunyen Detox Tea ranked top in the market segment of laxative products for eleven consecutive years, enjoying a market share of 13.82% in 2018, representing a year-on-year decrease of 0.73 percentage point.

BUSINESS REVIEW

2018 was the 18th anniversary of the Group since its establishment, and the 9th year of the listing of the shares of the Company. In 2018, the Group focused on the innovation of marketing patterns, exploration of internet marketing channels and expansion of brand promotion paths. While maintaining its existing Two Teas and Orlistat businesses, the Group continued to pursue brand rejuvenation, expand product portfolio, enhance efforts on research and development as well as the introduction of new products, and introduced products of Besunyen brand covering medicine, health food, food, etc. Meanwhile, the Group continued to optimise its business operation model and sales strategies. The structures and functions of the national offline sales system were segmented into offline management and principal customers management, and the Group continued to cultivate in the e-commerce area and established three major e-commerce operating centres in Beijing, Hangzhou and Guangzhou. The call centre and after-sale service team have been improved. Improvement has been achieved in respect of strategic breakthrough, product innovation and product services, and the value of the brand has been enhanced.

Concentrating on Market and Being Consumer-Oriented to Enhance Product Competitiveness

Launching Two Teas in New Classic Packaging to Carry on the Legacy of Herbal National Essence and Lead the New Trend of Healthy Tea Drink

In the first half of 2018, to enhance product brand image and offer consumers with better services, the Group launched product packaging showcasing national essence of Besunyen Detox Tea and Besunyen Slimming Tea under the brand development strategy. The cheongsam element and Besunyen products have been perfectly integrated to advocate the return of traditional culture and promote the national essence culture of China. Trial sales of the national essence packaging version were made in Beijing, Shanghai, Anhui and Yunnan, which were well received by customers. From the end of 2018, the packaging of the Two Teas was renamed from national essence version to classic version, and has been successively replaced to the new packaging of the classic version nationwide. The introduction of the new packaging of this classic version not only manifests the product characteristic of herbal functional tea but also promotes the traditional culture of cheongsam, leading the new trend of healthy tea drink of China.

Enhancing Market Competitiveness via Consumer-oriented Approaches and Product Lines Expansion

In 2018, the Group adhered to consumer-oriented concepts and expanded its product lines, introducing products including Besunyen meal replacement biscuits; Besunyen nutritional protein meal replacement milk shake; Besunyen Aloe soft capsule; Besunyen Runyuan Tea; product series including Besunyen vitamin B tablets, vitamin C tablets and vitamin C chewable tablets, vitamin E soft capsule, vitamin complex; Besunyen micronutrients capsule, granules and tablets series that contain calcium, iron, zinc and selenium; Besunyen rose and ginseng brown sugar ginger tea; Besunyen fruit and vegetable composite enzyme powder; and Besunyen slimmer collagen drink on the e-commerce platform, while launching LARLLY Menstruation Conditioning and Beauty Capsules and the reserved Besunyen Jinshutong (金舒通) capsule products in offline retail pharmacies. At present, the Group carries an array of slimming product offerings, comprising "OTC drug LARLLY Orlistat and Besunyen Orlistat + Health food Slimming Tea and Xian Xian Tea + Common food nutritious meal replacement milk shake, L-carnitine coffee and meal replacement biscuits", and an array of intestine healthcare product offerings, comprising "OTC drug Mei Yang Yang Glycerol Enema + Health food Detox Tea, Runyuan Tea, Jinshutong capsules and aloe soft capsules", and continues the development of the "Health food vitamin series and micronutrients series" under the product category of dietary supplements, and the health and beauty product categories of "OTC drug LARLLY Menstruation Conditioning and Beauty Capsules + Health food ginseng brown sugar ginger tea, fruit and vegetable composite enzyme powder and collagen drink".

Innovating Brand Strategies to Highlight our Brand Value

Title Sponsorship for Sakura Girls (《櫻花女生》), an Inke's Live Streaming Show, for Ongoing Brand Rejuvenation

As 2018 was the 18th anniversary of the establishment of the Group, in line with the Group's principal direction of marketing transformation and forging a new image of Besunyen as "a younger, healthier and trendier brand on its 18th anniversary", the Group provided a title sponsorship for Inke's Sakura Girls in 2018, a top-notch We Media programme in the live streaming industry. Such sponsorship has facilitated the rejuvenation of the brand and forged the path for scenario marketing.

The Group took advantage of the campaign of Sakura Girls in 2018, from the strategic launch conference in Hong Kong on 23 April 2018 to the celebrity festival in Guangzhou on 27 May 2018, which mainly integrated with IP channels, namely "celebrities", "e-commerce", "topics", "public relations", "live streaming contents", "creative interaction for festival", "offline promotion and releasing hard advertising" and "production of peripheral products by contestants", in order to realise a closed loop for brand scenario marketing. Under such closed loop, our brand concept as "weight management expert" was constantly delivered to target consumers. At the same time, "Besunyen Slimming Tea" and "Besunyen L-carnitine coffee (Sakura version)" under the name of Inke's Sakura Girls, were precisely embedded in the campaign, and thus further boosted the brand image and favourability of Besunyen brand among the youth.

Cooperating with Sakura Girls, the Group received brand reporting successively from over 180 media, with about 30 celebrities and artists assisting in brand popularity, and over 30 million views for live streaming contents. Meanwhile, the Group integrated e-commerce channels and launched customised IP box sets, which closely linked IP and the brand to thoroughly penetrate various channels of celebrities and Internet stars. Our online advertisements made redirection to pages of various secondary campaigns, and thus further empowered the e-commerce channel. This campaign became the youngest and the most eye-catching entertainment event in the first half of 2018. During the campaign, it achieved a total exposure for the brand of 4.68 billion times.

Leveraging Trendy Internet Platform to Promote Social Broadcasting of the Brand and Establish the Brand as a Young and Fashionable Synonym

In 2018, leveraging the Besunyen's Orlistat capsule, the Group joined force with platforms such as TikTok, WeChat and Weibo to employ multiple channels to jointly establish the "Besunyen's Small Blue Box" marketing campaign. The Group launched the "Small Blue Box, No Hard Time" challenge on the TikTok platform and the small blue box has become the "TikTok's Magic Medicine". Through the TikTok's topics challenge, innovative short videos were jointly created with the cooperation of TikTok's celebrities. The mindset of the youth was captured and expressed through the form of video, with the interesting and novelty elements favoured by the youth being included. Headed by dozens of super VIP and participated in imitation by hundreds of users, the small blue box received the crowd attention of the youth through Weibo topics. Meanwhile, a reading volume of over 300 million and a discussion volume of over 50 thousand were earned, as well as a topic attention volume of over 10 thousand. At the same time, the Group jointly cooperated with WeChat H5 and WeChat public account to disseminate the brand image and belief as well as to unlock the brand value, deeply explore the pain points of users, and capture the psychological needs of the youth, which allow the small blue box to be merged into the life of the youth. As an OTC drug emphasising oil expulsion and weight loss, Besunyen's Orlistat capsule has become another new slimming star after Besunyen Slimming Tea as well as the "besty" of numerous beauty lovers.

Expanding Product Placement into Movies and Television Dramas to Energise Brand Competitiveness with Contents Marketing and Scenario Marketing

In 2018, the Group exerted continuous efforts on contents marketing with placement into movies and television dramas as media to enhance the appeal to product functionality, and communicated with consumers through the utilisation of brand scenarios. In 2018, there were three programmes with placement broadcasted, namely Always with You (《陪讀媽媽》), an urban romance and family drama co-starred by Mei Ting and Xu Yajun premiered on China Blue Theater under Zhejiang Satellite TV and iQiyi; Mr. Swimmer (《游泳先生》), an inspirational and young idol drama co-starred by Ju Jingyi and Mike Angelo and broadcasted on Hunan Satellite TV and Mango TV; Goddessess in the Flames of War (《那些女人》), a main-rhythm red movie jointly released by Besunyen and co-starred by various stars and broadcasted on national cinema network. Six contracted programmes with placement have been confirmed, namely If Time Flies Back (《如果歲月可回頭》), an urban family life and workplace drama co-starred by Jin Dong and Rulu Jiang; Dare to Love Me (《愛我你敢嗎》), a television drama version of Ex-Files (《前任攻略》) co-starred by Han Geng and Wang Xiaochen; Action (《加油!你是最棒的》), a youth inspirational drama co-starred by Deng Lun and Sandra Ma; Mothers' Game (《媽媽的戰爭》), an educational and topical drama focusing on contemporary middle-class anxiety co-starred by Angelababy and Wei Daxun; Half a Lifelong Romance (《半生緣》), a remake of classics co-starred Carina Lau and Rulu Jiang; Beijing Days and Nights (《北京晚九朝五》), a film directed by Jaycee Fong Jo Ming and co-starred by Berlin Chen and Amber Kuo. Leveraging product placement in movies and television dramas, the Group manages to enhance brand exposure, facilitates brand rejuvenation and unleashes the multiplier effect on brand promotion.

Broadening Brand Promotion Channels through New Media Marketing

In 2018, the Group continued to leverage the dissemination nature of new media, promoting brand awareness by the dissemination advantage of We Media such as Weibo and WeChat and formulated a set of column contents with the characteristics of Besunyen, which received attention from extensive fans. In the "Inke's Sakura Girls" contest with our title sponsorship, the fans coverage recorded multi-fold growth via the promotion and reporting on the initiation of the contest, competition rules, campaigns, roadshow and evening parties by various means of interaction, illustrations and composition, H5 and video clip shots, as well as joint promotion with various intra-group brands.

Joining Hands with Academy Award and Sponsoring Besunyen Cup Public Welfare Advertising Contest

In 2018, the Group provided the title sponsorship for the spring competition and the autumn competition of the Academy Award of 16th Advertisement and Art Festival for Chinese College Students and held "Besunyen Cup" Public Welfare Advertising Contest. The contest spanned 30 provinces and cities and involved 60 colleges and universities, with 35 creative lectures and 35 off-site product interactive experience sessions. The official proposition poster covered more than 1,500 schools across the country.

2018 witnessed the 18th birthday of the Group, and innovative seminars themed "Gratitude to 18 Years of Love" for spring competition of the Academy Award was widely welcomed by students. The contest was completed successfully, receiving 14,638 pieces of qualified works with charity theme in total, representing a record high in terms of the number of public welfare themed works. In the autumn competition of the Academy Award, Besunyen presented two main themes, namely "Love, Let it SHOW" (《愛，能SHOW出來》) and "Change the Curve, Change the World" (《改變曲線，改變世界》). While promoting healthy weight loss, the Group appealed to the youth that they should also pay attention to the health condition of their parents and the elderly, and expressed their love bravely. The Group received 19,857 pieces of qualified works in total, which refreshed the consumers' awareness of Besunyen and gained enormous support from student groups. Through the zero-distance contact with university students, the contest created a sound and profound brand reputation for Besunyen among the youth.

Innovating Marketing Model, Optimising Sales Structure and Focusing on Growth of Direct Sales to End Users

Adjusting Sales Team Structure and Enhancing Management Efficiency to Improve Team Competitiveness

From September 2018, the Group adjusted the structures and functions of the national sales system into the regional operating results sharing system — i.e. the partnership: the national offline market was divided into three major regions. All three of them are equal but also compete against and improve each other, which stimulates their sense of ownership. This has significantly improved the work motivation of the sales team and has enhanced the overall capability of the sales team. To further improve management efficiency as well as sale capability, all regions have made efforts in innovation, such as improving team development, making breakthrough in major chains, innovating marketing model, eliminating the lowest, developing membership base, introducing new models and new products.

Adjusting Performance Appraisal Orientation and Concentrating on Growth of Direct Sales to End Users

To make sales team focus on the growth of direct sales to end users, eliminate the violation of the Group's management policies by distributors/sub-distributors and avoid the sales of stockpile in the market at low price, the Group connected the data of shipment on the distributor/sub-distributor side and the data of terminal sales, and changed the performance appraisal from shipment appraisal into direct sales to end users appraisal. By establishing direct sales to end users as a PK parameter for the sales personnel, it allows the sales personnel to completely participate in terminal management and maintenance and the excessive stockpile along the sales channel has been avoided, leading to more solid and effective terminal management and terminal basic promotion.

Enhancing Flow Management and Maintaining a Smooth Operating Order of Market

To enhance the monitoring on commodity information, the Group strengthened its control over the commodity flow for distributors and upgraded PanPass logistics code management system. By monitoring the logistics information of distributors, the Group could timely obtain information on commodity flow and logistics. Meanwhile, the Group has made direct connection to the data of distributors' and sub-distributors' systems, which provides a real-time command of data such as stock-out, stock-in and serial number of distributors and sub-distributors. In 2018, the Group made full effort to eliminate batches of obsolete and aged commodities and largely achieved the objective by the end of the year. Meanwhile, the Group has strengthened regulation on product pricing and has adopted a series of measures to safeguard the price stability. The confidence of distributors/sub-distributors has been improved and this will be beneficial to the healthy and stable development of the market.

Adhering to Open and Innovative R&D Philosophy to Enhance Research and Development Capabilities and Strengthen Research and Development Cooperation

In 2018, the Group persisted in openness and innovation. With enhanced cooperation with research and development institutes, third party technology service companies, suppliers and outsourced processing manufacturers, the Group continued to promote the development of new products in four health foods, namely weight loss, laxation, throat clearing and liver caring.

Besides, building on the research and development capabilities of Zhongshan Wanhan and Wanyuan, in 2018, to enhance the strategy on products reserve, Zhongshan Wanhan and Wanyuan completed the registration and filing of 6 types of eye drops and submitted a total of 21 invention patent applications. Meanwhile, the research and development team of the Group actively participated in a project group led by Professor Wang Linyuan of the School of Chinese Materia Medica of Beijing University of Chinese Medicine. A joint declaration with 12 units was made and approved as the sub-item of the List of the Modernisation of Chinese Medicine in 2018 by the Ministry of Science and Technology. Besunyen Runyuan Tea was successfully selected as the demonstrative research product of laxative product.

SOCIAL WELFARE

The Group partnered with Beijing Charity Association to establish the "Besunyen Special Charity Fund" for conducting charity and public welfare undertakings including carrying out social assistance activities, providing services to the underprivileged and playing the complementary role of social security, which has optimised the path for enterprise to participate in public welfare and charity, and created a practicable and efficient platform for the public welfare and charity undertakings to which the Group is committed.

In June 2018, the Group participated in a social welfare activity titled "Warm the Heart of Children — Walk with Love", to involve Beijing in charity and take care of children in difficulties hosted by Beijing Charity Foundation. The Group has been awarded the accolade of the national leading enterprise for welfare and caring.

The Group partnered with China Green Carbon Foundation and Beijing Green Sunshine Environmental Protection Public Welfare Foundation to entrust the Tencent's 9 September social welfare platform on 9 September 2018 to jointly initiate the "Defense for Children in Pasture" to build fence for herders and protect lives and properties of herders. The Group jointly developed and established "Policy Connected and Collaborated, Caring Focus Foundation" with the member of CPPCC of Fangshan District and Beijing Charity Foundation for public welfare and charity undertakings such as assistance in education, assistance in poverty and assistance in medicine.

AWARDS AND HONOURS

Winning Social Responsibility Outstanding Enterprise Award

On 28 December 2018, at the 2018 China Social Responsibility Public Welfare Ceremony & The 11th China Enterprises Social Responsibilities Summit, the Group received the "2018 China Social Responsibility Outstanding Enterprise Award". Over the years, the Group has actively taken part in various social welfare undertakings, stayed concerned about underprivileged groups and provided dedicated funds for the establishment of "Besunyen Special Charity Fund". For the implementation of social responsibility, the Group has always placed integrity and social contribution at the heart of its business philosophy, and regarded shareholders, customers, employees and social responsibility as the key to its sustainable development. With efforts to encourage people around, the Group will continue to pursue welfare undertakings and promote "Small Welfare, Big Effect".

OUTLOOK

According to the publication of National Bureau of Statistics, China's economy achieved generally stable growth while making further progress in 2018. China's economy has transformed from rapid growth to a quality development phase. The 19th Central Committee of the Communist Party of China put forward the "Implementation of Healthy China Strategy" which suggested new objectives for improving health protection and enhancing structural reform on supply side. A series of policies encouraging and supporting big health industry have been introduced successively. At the same time, China has also strengthened the management on the regulations for the big health industry. The big health industry will face unprecedented development opportunities and challenges.

The Group will continue to regulate and manage its business, while highly focusing on the growth of direct sales to end users in the market. Leveraging the current excellent market base and brand recognition, the Group will boost the sales of new products. Through establishment of reasonable new product incentive policy, expansion of product range, and continuous introduction of new products based on independent research and development and outsourced processing, the Group will continue to develop its e-commerce business to achieve higher revenue growth.

FINANCIAL REVIEW

The following table sets forth the operating results of the Group for the indicated years ended 31 December:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**378,378**	542,870
Cost of sales	**(123,061)**	(112,677)
Gross profit	**255,317**	430,193
Other income	**22,675**	28,645
Selling and marketing expenses	**(246,849)**	(339,684)
Administrative expenses	**(112,417)**	(106,921)
Impairment loss of intangible asset	**(4,802)**	—
Research and development costs	**(23,548)**	(15,866)
Other expenses	**(9,829)**	(9,665)
Other gains/(losses), net	**6,054**	(3,305)
Finance costs	**(6,665)**	(180)
Share of (losses)/profits of investments accounted for using the equity method	**(1,295)**	9,599
Loss before income tax	**(121,359)**	(7,184)
Income tax credit	**27,887**	12,465
(Loss)/profit for the year	**(93,472)**	5,281
(Loss)/profit attributable to:		
— Owners of the Company	**(95,299)**	4,086
— Non-controlling interests	**1,827**	1,195
	(93,472)	5,281
Other comprehensive income	**—**	—
Total comprehensive (loss)/income for the year	**(93,472)**	5,281
Total comprehensive (loss)/income attributable to:		
— Owners of the Company	**(95,299)**	4,086
— Non-controlling interests	**1,827**	1,195
	(93,472)	5,281

Upon the adoption of International Financial Reporting Standard 15 "Revenue from Contracts with Customers" ("**IFRS 15**"), certain promotion expenses have been net off against the Group's revenue. In 2018, the promotion expenses as net off against the Group's revenue amounted to RMB23.6 million. In 2017, the promotional expenses as separately recognised as selling and marketing expenses amounted to RMB55.0 million. The Group has used modified retrospective approach to adopt IFRS 15, and thus the comparative financial information for the same period has not been restated accordingly. For the "Financial Review" section, the revenue, gross profit and selling and marketing expenses for 2017 were adjusted assuming that the Group has adopted the IFRS 15 by using the full retrospective approach so as to illustrate a more comparable result.

REVENUE

	For the year ended 31 December					
	2018		2017 (as if adjusted)		2017	
	RMB'000	***Percentage of total***	*RMB'000*	*Percentage of total*	*RMB'000*	*Percentage of total*
Revenue:						
Besunyen Detox Tea	**114,000**	**30.1%**	202,871	41.6%	225,764	41.6%
Besunyen Slimming Tea	**149,589**	**39.6%**	194,075	39.8%	215,975	39.8%
Slimming medicines	**66,985**	**17.7%**	56,337	11.5%	62,694	11.5%
Other products and medicines	**47,804**	**12.6%**	34,539	7.1%	38,437	7.1%
Total	**378,378**	**100.0%**	487,822	100%	542,870	100.0%

The revenue of the Group in 2017 was RMB487.8 million and the revenue in 2018 decreased by 22.4% to RMB378.4 million. Among these, the revenue of Besunyen Detox Tea decreased by 43.8%, from RMB202.9 million in 2017 to RMB114.0 million in 2018, while the sales volume decreased from 151.7 million tea bags in 2017 to 86.3 million tea bags in 2018. The revenue of Besunyen Slimming Tea decreased by 22.9%, from RMB194.1 million in 2017 to RMB149.6 million in 2018, while the sales volume decreased from 151.4 million tea bags in 2017 to 117.5 million tea bags in 2018. The revenue of the slimming medicine, Orlistat, increased by 19.0%, from RMB56.3 million in 2017 to RMB67.0 million in 2018.

The average selling price of Besunyen Detox Tea and Besunyen Slimming Tea in 2017 were RMB1.34 and RMB1.28 per bag respectively, and were RMB1.32 and RMB1.27 per bag respectively in 2018. The average selling price of Besunyen Detox Tea and Besunyen Slimming Tea slightly decreased by 1.5% and 0.8% as compared with those of the same period of 2017, respectively.

COST OF SALES AND GROSS PROFIT

	For the year ended 31 December					
	2018		2017 (as if adjusted)		2017	
	RMB'000	***Percentage of revenue***	*RMB'000*	*Percentage of revenue*	*RMB'000*	*Percentage of revenue*
Cost of sales	**123,061**	**32.5%**	112,677	23.1%	112,677	20.8%
Gross Profit	**255,317**	**67.5%**	375,145	76.9%	430,193	79.2%

The Group's cost of sales increased by 9.2% from RMB112.7 million in 2017 to RMB123.1 million in 2018. Cost of sales as a percentage of revenue increased from 23.1% in 2017 to 32.5% in 2018. The increase in cost of sales as a percentage of revenue was mainly due to the consolidation of the acquired companies by the Group since November 2017, namely Zhongshan Wanhan, Zhuhai Kangbaina Pharmaceutical Co., Ltd ("**Kangbaina**") and Zhuhai Aolixin Pharmaceutical Co., Ltd ("**Aolixin**"), which had higher cost of sales as a percentage of revenue.

Revenue decreased by 22.4% and cost of sales increased by 9.2% in 2018 as compared with 2017, the gross profit of the Group decreased by 31.9% from RMB375.1 million in 2017 to RMB255.3 million in 2018. Gross profit margin of the Group decreased from 76.9% in 2017 to 67.5% in 2018.

OTHER INCOME

In 2018, the Group's other income mainly comprised interest income and investment income from wealth management products of RMB1.0 million (2017: RMB1.3 million), government grants of RMB3.3 million (2017: RMB5.2 million) provided by the PRC government to support the Group's operation of business, and rental income from investment properties of RMB18.0 million (2017: RMB22.0 million).

SELLING AND MARKETING EXPENSES

	For the year ended 31 December					
	2018		2017 (as if adjusted)		2017	
	RMB'000	***Percentage of revenue***	*RMB'000*	*Percentage of revenue*	*RMB'000*	*Percentage of revenue*
Advertising costs	**50,575**	**13.4%**	99,753	20.5%	99,753	18.4%
Marketing and promotional expenses	**74,276**	**19.6%**	60,699	12.4%	108,218	19.9%
Employee benefit expenses	**86,658**	**22.9%**	91,373	18.7%	98,902	18.2%
Others	**35,340**	**9.3%**	32,811	6.7%	32,811	6.1%
Total	**246,849**	**65.2%**	284,636	58.3%	339,684	62.6%

Selling and marketing expenses of the Group decreased by 13.3% from RMB284.6 million in 2017 to RMB246.8 million in 2018. The advertising costs in 2018 decreased by RMB49.2 million as compared to 2017, but the marketing and promotional expenses increased by RMB13.6 million as compared to 2017, mainly due to the fact that the expenditure in advertising via traditional TV media decreased and gradual transition to marketing and promotion via internet media and channel network.

ADMINISTRATIVE EXPENSES

	For the year ended 31 December			
	2018		2017	
	RMB'000	***Percentage of revenue***	*RMB'000*	*Percentage of revenue*
Employee benefit expenses	**42,967**	**11.4%**	40,432	7.5%
Office expenses	**5,358**	**1.4%**	5,892	1.1%
Professional service fees	**27,377**	**7.2%**	28,440	5.2%
Entertainment and travelling expenses	**5,992**	**1.6%**	6,642	1.2%
Others	**30,723**	**8.1%**	25,515	4.7%
Total	**112,417**	**29.7%**	106,921	19.7%

The administrative expenses of the Group increased by 5.1% from RMB106.9 million in 2017 to RMB112.4 million in 2018, mainly due to the inclusion of the administrative expenses of the companies acquired in November 2017 by the Group, namely Zhongshan Wanhan and Wanyuan, Kangbaina and Aolixin, in 2018.

RESEARCH AND DEVELOPMENT COSTS

	For the year ended 31 December			
	2018		2017	
	RMB'000	***Percentage of revenue***	*RMB'000*	*Percentage of revenue*
Research and development costs	**23,548**	**6.2%**	15,866	2.9%

The Group's research and development costs increased by 47.8% from RMB15.9 million in 2017 to RMB23.5 million in 2018. Research and development costs as a percentage of revenue increased from 2.9% in 2017 to 6.2% in 2018, mainly due to the inclusion of the research and development costs of the newly acquired companies, Zhongshan Wanhan and Wanyuan in 2018.

TAXATION

Income tax credit of the Group increased from RMB12.5 million in 2017 to RMB27.9 million in 2018, which was mainly due to the recognition of deferred income tax assets on the deductible temporary difference/tax losses by the Group.

THE GROUP'S TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR

Due to the aforementioned factors, the total comprehensive loss for the year was RMB93.5 million (2017: total comprehensive income of RMB5.3 million).

LIQUIDITY AND CAPITAL RESOURCES

In 2018, the capital required for the Group's operation and capital expenditure mainly derived from the cash flow generated from the operating activities and bank borrowings.

CASH FLOWS

The following table summarises the net cash flows of the Group for the indicated years ended 31 December:

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net cash outflow from operating activities	**(82,138)**	(738)
Net cash outflow from investing activities	**(60,142)**	(102,608)
Net cash inflow from financing activities	**122,168**	31,152
	(20,112)	(72,194)
Effects of changes in exchange rate on cash and cash equivalents	**2,638**	(2,457)
Net decrease in cash and cash equivalents	**(17,474)**	(74,651)

In 2018, the Group's net cash outflow from operating activities was RMB82.1 million (2017: RMB0.7 million). The increase in outflow as compared to 2017 was mainly due to the decrease in operating profits as well as the net outflow of working capitals. In 2018, the net cash outflow from investing activities of the Group was RMB60.1 million, which was mainly for infrastructure projects and investments in wealth management products (2017: RMB102.6 million, mainly due to the net cash outflow (net of cash acquired) of RMB81.4 million for the acquisition of Zhongshan Wanhan and Wanyuan, Kangbaina and Aolixin, as well as RMB19.6 million for the further capital injection to the joint venture, Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership)

("**Yuanyuan Liuchang Fund**")). In 2018, the net cash inflow from financing activities of the Group was RMB122.2 million, which was mainly due to the proceeds from the drawdown of borrowings (2017: net cash inflow from financing activities was RMB31.2 million, mainly due to the issuance of shares of the Company).

BANK BALANCES, CASH AND BANK BORROWINGS

The Group's bank balances and cash, comprising cash and cash equivalents, bank deposits with initial term of over three months and restricted bank deposits, decreased by 32.1% from RMB83.3 million as at 31 December 2017 to RMB56.6 million as at 31 December 2018. Meanwhile, the Group has a bank borrowing of RMB150.0 million as at 31 December 2018 (31 December 2017: RMB20.0 million).

CAPITAL EXPENDITURE

In 2018, cash payments for capital expenditure of the Group amounted to RMB49.0 million (2017: RMB30.9 million). The following table sets forth the capital expenditure as paid by the Group for the indicated years ended 31 December:

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Property, plant and equipment	**38,360**	25,288
Investment properties	**9,968**	—
Intangible assets	**656**	5,562
Total	**48,984**	30,850

INVESTMENT PROPERTIES

The following table sets forth the details of investment properties as at the dates indicated:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Investment properties	**144,996**	48,881

The Group owns the eastern region plant located at No.18 Dadou Road, Doudian Town, Fangshan District, Beijing, 102433 (the "**Eastern Region Plant**") and certain properties in Changcheng Building located at No.3000, Zhongshan Road North, Putuo District, Shanghai. In 2018, the Eastern Region Plant was under construction, and 35% has been completed as at 31 December 2018. Among which, gross floor area of 7,501.51 sq.m. has been completed and obtained the housing license. It is expected to be completed in June 2019, and would be leased to independent third parties upon completion. Shanghai Changcheng Building has been in vacancy since July 2018. Until the Group repossesses the units due to future business development needs, the above property held for leasing is classified as investment property.

On 31 December 2018, the Group reclassified the properties leased to independent third parties of 8,392.32 sq.m. and self-occupied properties of 3,235.89 sq.m. (totaling 11,628.21 sq.m.) in Besunyen Building, which is situated at Block D, Linglong Tiandi, No. 160 West 4th Ring Road, North Haidian District, Beijing 100036, from "investment property" and "property, plant and equipment" to "assets held for sale". Such change was due to the signing of the equity transfer agreement in relation to disposal of Beijing Chang Sheng Business Consulting Co., Ltd. between A Li Yun Shan (Beijing) Business Consulting Co., Ltd., a subsidiary of the Group, and Tosalco Pte. Ltd. Please refer to the section headed "Material Acquisition or Disposal" for details.

As at 31 December 2018, carrying values of the investment properties amounted to RMB145.0 million (2017: RMB48.9 million). Such investment properties are measured on the basis of cost method and depreciated on a straight-line basis over the estimated useful life of 30 years. On 31 December 2018, the Group assessed the fair values of the investment properties based on a valuation carried out by an independent valuation company and determined that the related fair values exceed the carrying values of such investment properties.

INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Investments accounted for using the equity method	**94,019**	96,112

As at 31 December 2018, the carrying value of the Group's investments in the joint ventures, Ningbo Yuanyuan Liuchang Investment Management Co., Ltd. and the Yuanyuan Liuchang Fund, was RMB94.0 million. On 18 July 2018, the board of directors of the associate, Yunzhi Besunyen Pharmaceutical Co., Ltd. ("**Yunzhi Besunyen**"), has made a resolution to liquidate Yunzhi Besunyen voluntarily. As at 31 December 2018, the carrying value of the investment in Yunzhi Besunyen has been reduced to zero.

INVENTORIES

The Group's inventories include raw materials and packaging materials, work in progress (semi-manufactured goods) and finished goods. The following table sets forth the inventory analysis of the Group as at the dates indicated:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Raw materials and packaging materials	**11,201**	7,969
Work in progress	**1,249**	1,803
Finished goods	**18,022**	7,914
Total inventories	**30,472**	17,686

The turnover days of the Group's inventories in 2018 (calculated by dividing the average inventories balances at the beginning and the end of the period by the cost of sales of the period, then multiplying the number of days during the year) was 71 days (2017: 64 days).

RISKS IN FOREIGN EXCHANGE RATE

Almost all of the operating income, cost of sales and expenses as well as administrative expenses of the Group are denominated in RMB. Apart from some bank deposits that are denominated in Hong Kong dollar and US dollar, most assets and liabilities of the Group are denominated in RMB. Since RMB is the functional currency of the Group, risks in foreign exchange rate mainly come from assets denominated in Hong Kong dollar and US dollar.

For the year ended 31 December 2018, the Group did not purchase any foreign exchange and interest rate derivative products or relevant hedging tools (2017: Nil).

MATERIAL ACQUISITION OR DISPOSAL

On 31 December 2018, A Li Yun Shan (Beijing) Business Consulting Co., Ltd., an indirect wholly-owned subsidiary of the Group, entered into an equity transfer agreement with Tosalco Pte. Ltd., pursuant to which A Li Yun Shan (Beijing) Business Consulting Co., Ltd. has conditionally agreed to sell and Tosalco Pte. Ltd. has conditionally agreed to acquire 100% equity interest of Beijing Chang Sheng Business Consulting Co., Ltd. (the "**Target Company**", together with Beijing Besunyen Property Management Co., Ltd. ("**Besunyen Property**"), its wholly-owned subsidiary, collectively the "**Target Group**") at a consideration of RMB555.0 million, all of which will be paid by Tosalco Pte. Ltd. in cash. Besunyen Property's major asset is Besunyen Building. Upon completion of the above disposal, the Target Company will cease to be a subsidiary of the Company, and the financial results of members of the Target Group will cease to be incorporated into the Group's financial statements. The equity transfer agreement and the transactions contemplated thereunder have been approved at the extraordinary general meeting held on 22 February 2019 by the shareholders of the Company. For details, please refer to the announcements of the Company dated 31 December 2018 and 22 February 2019, and the circular of the Company dated 4 February 2019.

Save as disclosed above, the Group had no other material acquisition or disposal of subsidiaries, associates and joint ventures in 2018.

SIGNIFICANT INVESTMENTS HELD AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR ADDITIONS OF CAPITAL ASSETS

Yuanyuan Liuchang Fund, a company with a total committed capital contribution of RMB100.0 million, is owned by the Group with 89% of its shares. It mainly focuses on investment projects in the healthcare industry, TMT (technology, media and telecommunications) industry and consumer industry, as well as investment in several early stage partnership enterprises. For the year ended 31 December 2018, Yuanyuan Liuchang Fund did not invest in new projects.

Save as disclosed above, there were no other significant investments held by the Group in 2018. Save as disclosed in this announcement, there was no plan of the Group for other material investments or additions of capital assets as at the date of this announcement.

PLEDGE OF ASSETS

As at 31 December 2018, the Group had bank borrowings of RMB150.0 million, through pledging properties with total net book value of RMB88.3 million and land use rights with total net book value of RMB24.9 million with banks and guarantee companies (2017: the Group had bank borrowings of RMB20.0 million, through pledging land use rights with net book value of RMB19.4 million with banks).

GEARING RATIO

As at 31 December 2018, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 27.00% (2017: 17.79%).

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2018, the Group had no material contingent liabilities or guarantees (2017: Nil).

CAPITAL COMMITMENTS

As at 31 December 2018, the Group had capital commitments of RMB78.6 million (2017: RMB12.7 million).

COMPLIANCE WITH LAWS AND REGULATIONS

The Group shall conduct business in compliance with the requirements of various laws and regulations, mainly including the Food Safety Law of the PRC, the Drug Administration Law of the PRC, the Regulations for Implementation of the Drug Administration Law of the PRC, the Environmental Protection Law of the PRC, the Labour Law of the PRC, the Labour Contract Law of the PRC as well as other applicable regulations, policies and normative legal documents issued based on or related to such laws and regulations. The Group's prevailing quality and safety control systems of product production are relatively comprehensive and impose effective control on design and execution. The Group has passed the certifications of quality management systems such as ISO9001, ISO22000 and HACCP, to ensure products quality and safety in an all-round and in-depth manner. In case of any changes in applicable laws, regulations and normative legal documents related to our principal businesses, the Group would timely inform relevant staff and operation teams. In addition, the Group ensures the compliance with such requirements via numerous measures, such as internal control and approval procedures as well as training and supervision on different business departments.

During the year, so far as known to the Directors of the Company, there was no non-compliance with any relevant laws and regulations which would have a material impact on the Group.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group endeavours to maintain sustainable development in the long term, continuously create value for its employees and customers, and foster good relationships with its suppliers. The Group understands that employees are its valuable assets, and the realisation and enhancement of employees' values will facilitate the achievement of the Group's overall goals. For the year ended 31 December 2018, the Group provided generous social security benefits to its employees to motivate their proactivity at work and heighten their sense of belonging. The Group also understands the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group. The Group places emphasis on supplier selection and encourages fair and open competition to foster long-term relationships with quality suppliers on the basis of mutual trust. To maintain the competitiveness of its brand and products, the Group abides by the principles of honesty and trustworthiness and commits itself to consistently provide quality products to establish a reliable service environment for its customers. For the year ended 31 December 2018, there was no significant and material dispute between the Group and its suppliers and/or customers.

HUMAN RESOURCES MANAGEMENT

The Group regards high-quality employees as its most important resource. As at 31 December 2018, the Group had 1,121 employees in the PRC mainland and Hong Kong (2017: 1,020 employees), which included 13 promotional staff employed by employment agents (2017: 25 employees). The staff costs of the Group (including remunerations of the Directors) were RMB156.2 million for the year ended 31 December 2018 (2017: RMB161.7 million). Employee remuneration is determined with reference to individual performance, work experience, qualification and current industry practice. Apart from basic remuneration and statutory pension benefit scheme, employee benefits also include discretionary bonus and share options.

The Group places emphasis on the recruitment, motivation and retention of suitable talents. Directors and some of the senior and middle management executives enjoy share options under the pre-IPO share option scheme and the share option scheme adopted by the Company on 30 April 2010 and 8 September 2010, respectively, which are to motivate staff, to encourage them to work hard to enhance the value and foster better long-term development of the Group. The Company has also adopted a restricted share award scheme to grant restricted shares to eligible employees.

The Group invests considerable efforts in the continuous education and training of our staff, so as to keep enhancing the knowledge, skill and team spirit of our staff. The Group often provides internal and external training courses to relevant staff as required.

FINAL DIVIDEND

The Board has resolved not to recommend for declaration and payment of a final dividend for the year ended 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 May 2019 to 28 May 2019, both days inclusive. During such period, no transfer of shares of the Company (the "**Shares**") will be registered. The record date for determining the eligibility to attend the forthcoming annual general meeting (the "**AGM**") to be held on 28 May 2019 will be 28 May 2019. In order to be eligible for attending the AGM, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 22 May 2019.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance in order to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles and complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to The Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for the year ended 31 December 2018, except for code provision A.2.1 of the CG Code.

The Directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximise the interests of the shareholders.

CODE PROVISION A.2.1 UNDER THE CG CODE

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of both Chairman and Chief Executive Officer are performed by Mr. Zhao Yihong. Mr. Zhao is a co-founder of the Group and has 29 years of experience in food and beverage industry in the PRC. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies currently and in the foreseeable future. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own securities dealing code for the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they complied with the required standard as set out in the Model Code during the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the year ended 31 December 2018.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely Mr. He Yuanping, a Director with the appropriate professional qualifications and serving as the chairman of the Audit Committee, Mr. Huang Jingsheng and Mr. Ren Guangming. The Audit Committee has reviewed the consolidated financial statements and this annual results announcement of the Group for the year ended 31 December 2018, reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This announcement is published on the websites of the Company (http://ir.besunyen.com) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2018 will be dispatched to the shareholders of the Company and available on the above websites in due course.

By order of the Board
Besunyen Holdings Company Limited
Zhao Yihong
Chairman and Chief Executive Officer

Hong Kong, 13 March 2019

As at the date of this announcement, the executive Directors are Mr. Zhao Yihong (Chairman and Chief Executive Officer) and Ms. Gao Yan (Vice Chairman); the non-executive Director is Mr. Zhuo Fumin; and the independent non-executive Directors are Mr. Huang Jingsheng, Mr. Ren Guangming and Mr. He Yuanping.